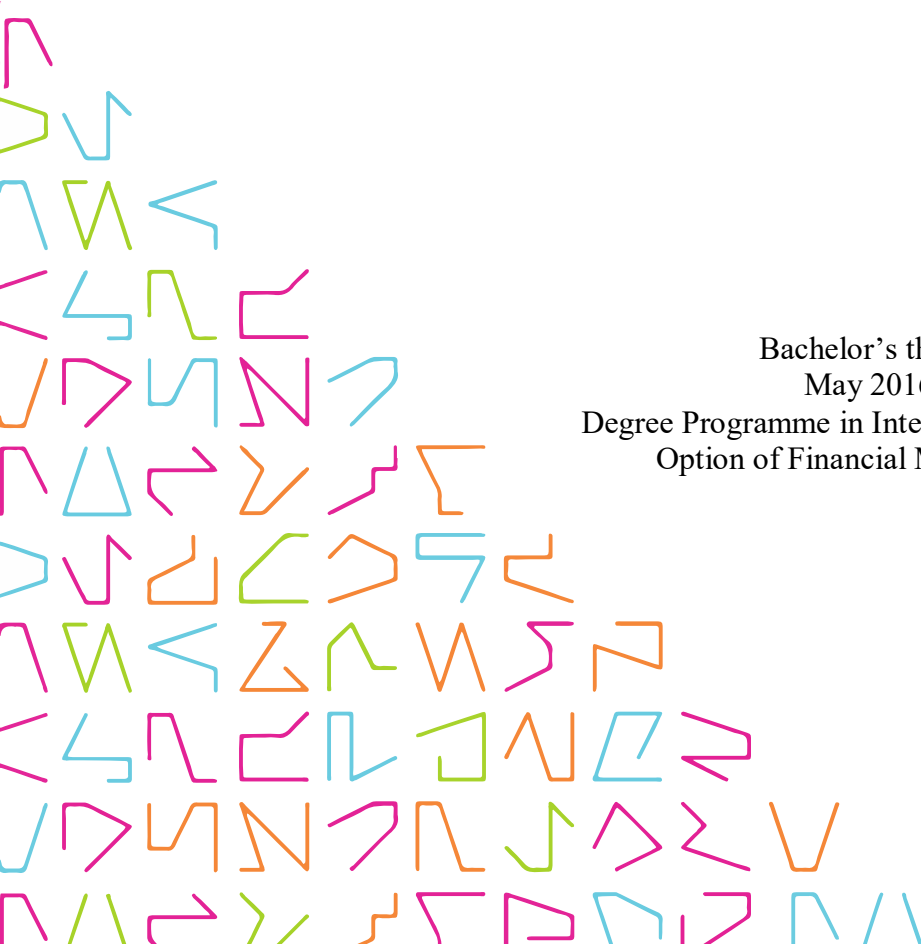


REAL ESTATE SAVING AND INVESTING

A Guide for Investors

Santeri Selin



Bachelor's thesis
May 2016
Degree Programme in International Business
Option of Financial Management

ABSTRACT

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A Guide for Investors

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This thesis paper is meant to serve as a guide for those interested in investing in real estate. The primary target group to utilize this thesis is the clients of Kangasalan Seudun Osuuspankki, as the thesis is made in collaboration with the bank.

The main objective of this thesis was to help the clients of Kangasalan Seudun Osuuspankki to consider real estate investing as a possible investing method and its risks and possible profits. Also gathering information on how to gain capital by utilizing other methods of investing for being able to execute the investment plan and how to get capital by lending it from banks was one of the topics discussed. Other investing methods were also discussed in a more broad way by comparing them to real estate investing. The comparison of these investing methods was one of the key objectives of this thesis to gain a greater understanding of how good of an investment real estate investing is compared to other methods.

To fulfill these objectives a broad study was made by examining publications of Finnish organizations, companies and articles of the biggest economic newspapers. The thesis introduces many laws and regulations considering real estate investing and investing in general, to which data was gathered from government administrated organizations such as the Finnish tax administration and state treasury. The primary source of data was web publications and books discussing real estate investing as well.

This thesis consists of six parts, from which parts two to five discuss the topics of the thesis and are supported by the data gathered from various sources. Part one introduces the thesis and gives general knowledge of the topic. In part six the results gathered in the thesis are examined to sum up the paper and to present the findings made during writing the thesis.

The thesis was made in collaboration with Kangasalan Seudun Osuuspankki, which is a part of the Osuuspankki Group.

Key words: real estate investing, investing, guide, Finnish real estate market

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1 INTRODUCTION

1.1 Background

Buying a house of one's own is something that many people consider during the course of their lives and many see the plan fit for their situation in one point or another. Buying a place of one's own is smart in more than one ways, since real estate ownership is not only a smart way to live, it can also be a great object for investing.

Buying real estate as an investment venture has become more and more common, since the general interest in investing in stocks and bonds has decreased since the earlier decades

Although a reasonable move to make in some point, many people face the fact that buying a house or an apartment is very expensive compared to other forms of investing and this is why many people don't bother and live on rent instead. The people that do want to buy a place of their own might not have the money for the down payment at the moment of the decision to buy and have to seek for ways to save the money for it.

I myself have been in this situation, since in the fall of 2012 I purchased a place of my own. I naturally as a young person wasn't able to pay the down payment on the spot and had to save money for years to make it possible. The saving process was interesting and there were lots of ways to do it, so I wanted to make my thesis based on that process. I also have had a chance to see different aspects of real estate business up close, since I grew up in a family where there is expertise in this field.

This topic is also very relevant topic to the time being, since there has been lots of talk in the media about bank's lending rights in the recent years. The Finnish Financial Supervisory Authorities have stated that the Finnish banks should only grant a loan of 90% of the price of the real estate that is being purchased. Also a statement is made that in the future for people buying their first apartment the banks can only grant an 80% loan of the price. Another recent topic in the media has been that the tax deductible amount of the loan is to be decreased.

These issues have concerned people that are looking to buy a place of their own, since buying real estate is becoming more expensive. Also people looking to buy real estate for investing purposes have shunned these changes.

1.2 Objectives

The objective of this thesis is to determine ways and methods of saving when it comes to buying real estate and also to cover the ways, risks and opportunities of investing in real estate business. This thesis also has a widely comparative aspect between the most common investing methods and real estate investing

In today's economy, it is ever harder to create personal income and financial stability through saving and investing. The risks are relatively high compared to the possible earnings that can be acquired especially when discussing the state of the stock markets and currency exchange rates and how unstable they are. Lower risk investment possibilities for example savings account in a bank to gain interests on the other hand is painfully slow paced and one can't expect to gain notable income, since interest rates are extremely low at the moment.

The meaning of this thesis is to consider real estate markets as an alternative investment venture. Purchasing real estate is one of the safest investing possibilities especially when compared to for example stock markets and currencies, although investing in real estate is never risk free. Real estate investing is at lower risk class when it comes to investing since the real estate markets have relatively little fluctuation so the investor doesn't, in most cases, have to worry about losing all his/her savings overnight and also in today's economy the interest rates of banks are so low that the cost of capital is not that high that it would be an obstacle for the venture.

Another attractive point of investing in real estate is that unlike in most other investments the costs of capital is paid for you by someone else in form of rent revenues, which the owner of the property gets and can use them to pay for interests and loans. The owner also has the possibility to actually use the property him/herself, when paying for living for themselves by decreasing the amount of loan to the debtor and increasing

the amount of capital that can be liquidated from the property, rather than living on rent and paying off someone else's debts.

1.3 OP-Kangasala

This thesis is made in collaboration with Kangasalan Seudun Osuuspankki, which is a side office of Osuuspankki Group located in the city of Kangasala. Kangasala is the neighbouring city of Tampere.

Osuuspankki Group was founded in 1902 and at that time was known as Osuuskassojen Keskuslainarahasto Osakeyhtiö (OKO) (Central Lending Fund of the Cooperative Societies Limited Company), and is nowadays the leading provider of banking,- wealth management,- and insurance services in Finland. The banking group now offers its services with 114 years of experience and has offices in 180 locations, of which all of them are independent practices in banking industry. In 2007 the banking group officially changes its name to OP-Pohjola-Ryhmä.

The side office of OP-Pohjola-Ryhmä, Kangasalan Seudun Osuuspankki is an independent local provider of banking services in the city of Kangasala. OP-Kangasala states that its core mission is to enhance sustainable financial success, well-being and safety of its shareholders, customers and its operating environment. Their company values are customer proximity, responsibility and succeeding together.

OP-Kangasala provides its customers with two main services, which are banking services and insurance services. It provides its services to both, businesses, agricultural entrepreneurs and individual customers and highlights quality and comprehensiveness in its services. The bank also offers services in financing, in saving and in investing to its customers.

The operation area of OP-Kangasala includes the areas of Kangasala and Pälkäne. In its operating areas, OP-Kangasala is the market leader in both banking and insurance services. The bank has five offices in total, of which the main office is located in Kangasala and the others are located in Vatiala, Sahalahti, Kuhmalahti and in Onkkaala in the

centrum of Pälkäne. They also have another office in Kangasala in addition to their head office. In OP-Kangasala offices, there are around 40 professionals employed in 2016.

The bank has around 21 000 customers and the amount is increasing every year. The bank has about 9000 share members, who act as the owners of the bank.

2 REAL ESTATE SAVING & LOANS

Since purchasing real estate is expensive, the most common way of financing the purchase is to apply for a bank loan. Saving before applying for a loan is sensible, since the loan terms vary based on the savings a person has gathered in the past. (Asuntolaina 2014.)

Before applying for a loan, one should assess how much can he or she pay per month. More precise calculations are most commonly made in collaboration with the bank that issues the loan. The most common factor to determine the amount of the loan that is issued is the person's ability to pay back the loan. The ability is determined on the income and expenses of the applicant, as well as his or hers life situation and future plans.

According to a research study made by an investment bank Alexandria (2012) ones of the most common ways of saving money are savings accounts (73% of people with a savings plan), funds (40%) and stocks (25%).

2.1 The ASP system

The ASP system (Asuntosäästö- ja tukijärjestelmä) is a saving and support system for people saving money for their first real estate purchase. The system is meant for people of age 18-39 whom have never owned an apartment or a house, or have never owned more than 49 percent of an apartment or a house. (Asp-säästäminen 2015.)

The saving period in the ASP system must be at least two years, after which the amount of money gathered through saving and interests must be at least 10 percent of the price of the house or an apartment the person is saving for. In addition to this the standard collateral approved by the issuing bank are required.

The ASP system is issued by the government with a goal to encourage people for purchasing their own apartment. The ASP system allows savers to gain exceptionally profitable interests on their savings and have affordable terms for the applied bank loan.

The ASP contract can be altered during the savings period and the contract can also be transferred to a different bank and the loan can be taken from another bank than the one where the payments were made. (Finanssivalvonta 2015.)

The ASP system consists of two stages: ASP advance saving and ASP interest subsidy loan. (Ympäristöhallinto 2015.)

2.1.1 ASP advance saving

As a part of the ASP advance saving contract, the saver commits on saving at least 10 per cent of the total value of the property that is to be purchased and after the required amount is saved the bank commits on issuing a loan. The saver can decide on the amount he/she will save on their account per month, but the amount has to be between 150€-3000€ per month depending on their financial situation and the goal of the total amount needed. The desired amount must be paid quarterly in minimum of eight quarters. The deposits however don't have to be paid over consecutive quarters, but the saver can plan the payments as they see fit for their financial situation. In addition to the initial savings, also the interest gained for the capital on the ASP savings account will be considered as a part of the total amount of saved assets.

The ASP contract doesn't tie the saver to a certain bank. The saver can change his/her savings account to another bank in the middle of a savings period, even if the contract is made with the other bank. Also the loan in the end of the savings period can be applied from another bank than the one where the saving deposits were made. Also the original ASP contract can be altered during the savings period. If the saver wishes to use assets other than the ones saved to the ASP savings account when purchasing the house, he/she may do that. However those assets will not be counted as a part of the ASP savings.

When the saver has successfully fulfilled the terms of the contract and has signed a bill of sale for a property he may withdraw the saved assets from the savings account. The assets may also be withdrawn when the saver starts to build a house. The saver can also buy property before the savings period is over, but in this case he/she must have made at least half of the required quarterly deposits and the funding must be negotiated

separately, since the assets from the ASP savings account cannot yet be withdrawn at this point. If the saver fails to fulfil the terms of the savings contract and/or withdraws assets from the savings account before the required payments are done, or purchases property before half of the payments are done, the ASP contract will be terminated. (Ympäristöhallinto 2015.)

2.1.2 ASP interest subsidy loan

The second part of the ASP system is the interest subsidy loan in which the loan or a part of the loan (in case the amount of the loan exceeds the maximum amount for which the interest subsidy loan can be applied) can be accepted as interest subsidy loan. Required that the taker of the loan does not receive other support from the governments assets for purchasing the property.

As shown in the figure (figure 1.) below, the maximum amount of loan that can be accepted as interest subsidiary loan changes by regions of municipality. The maximum amount is the highest in the Helsinki region where the taker of the loan can get 180 000€ accepted as interest subsidy loan. From other municipality regions, in Espoo, Vantaa and Kauniainen the maximum amount is set for 145 000€ and in the rest of the country 115 000€.

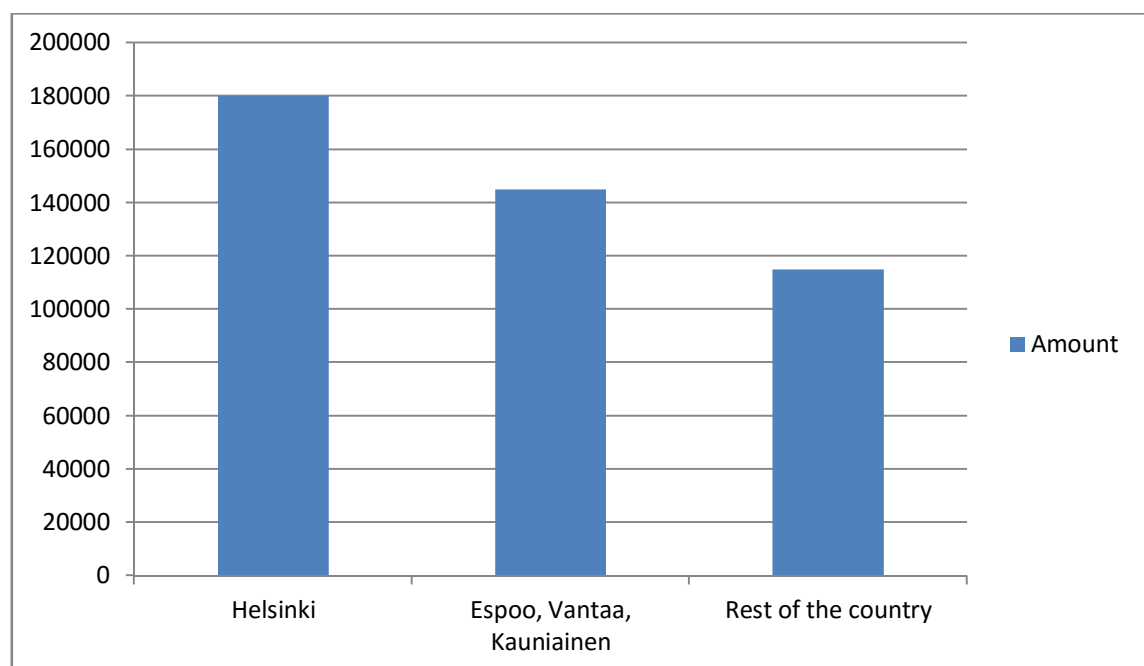


FIGURE 1. The amount of loan that can be accepted as interest subsidy loan by region.

When applying for a loan, the terms of payment for the loan and the interest of the loan will be negotiated with the bank issuing the loan. However the bank must issue the loan with a lower interest than in their usual loans for a person applying for an interest subsidy loan. (Ympäristöhallinto 2015.)

When the interest of the loan exceeds 3,8% the government pays interest subsidy for the taker of the loan and if the loan is less than 3,8%, the taker of the loan pays the interest by themselves. As interest subsidy, 70 percent will be paid from the part of interest that exceeds 3,8%. The interest subsidy will be executed in a way that the interest subsidy is already paid for by the government as the bank bills the taker of the loan, so that he/she only receives interest claims worth maximum of 3,8%. The interest subsidies will be paid twice per year on the due date of the interest. As soon as the interest subsidy loan has been withdrawn by the taker of the loan, the government immediately starts to pay the interest subsidies.

The ASP system is meant for people that will buy the apartment for their own permanent use, so a person cannot get ASP benefits for an investment real estate in a way that the apartment is first rented and then sold when the price goes up. Renting the apartment is possible in a case where the owner has to move elsewhere, but even in that case only for a maximum of two years. The owner of the property will not be entitled for the benefits of the ASP interest subsidy system if these requirements are not met. If the owner wishes to sell the property, the assets gained from the sale must be used in full amount to pay for the new property if the owner wishes to keep his/her benefits of the ASP system. Buying a new apartment is not restricted but the sale should not occur until a reasonable time has passed from the purchase of the property for which the loan granted by the ASP system was initially used. (Valtionkonttori 2012.)

2.2 Loans for buying property

Applying for a loan from a bank can be difficult and there are vast changes in the interest rates and other conditions between different banks. Comparing different banks and their offers can save the taker of the loan thousands of Euros in the long run. There are no restrictions on who can apply for a loan to buy property, although basically all banks

require that the credit reports of the person applying for a loan are in order. Also the income level of the person applying for a loan must be in line with the amount that he/she is applying for, in order for the bank to be certain that the person will be able to pay back the loan within the agreed period and can handle the interest rates without difficulties. (Asuntolaina 2015.)

2.2.1 The applying process for a loan

The process for applying for a loan usually starts with loan consultation with a bank official of the bank from where the person applying for a loan will take the loan. At the loan consultation, the bank official calculates an individual chart of the incomes and expenses of the client based on the information the client brings to the bank official. Based on this information, the client and the bank official can assess on how large of a sum it is possible to lend for the applier. When coming to the loan consultation, the applier of the loan should make sure that he/she has the appropriate documents for the negotiation. It is customary to bring a document that states the client's current loans as well as what assets the client has (Stocks, properties, valuable materials). Also latest pay slips are needed, with an assessment of the current expenses. (Asuntolaina 2015.)

Before actually taking the loan, the loan can be applied from the bank in advance, even if you don't yet accurately know what the amount of the loan will be. In this case the bank will submit an offer for the loan for the applier of the loan, which allows him/her to have more time in evaluating the terms and the amount of the loan. After the client has filled the loan application with the required information, the bank checks the credit information from Suomen Asiakastieto Oy.

Before the bank will issue the loan for the client, it needs to make sure that they get their money back from the loan even in a case where the financial situation of the client collapses. To secure its assets, the bank may require the client to state some of his/her fortune as collateral for a case in which the client is no longer able to pay his/her debt to the bank. The most usual collateral with a loan for property is the property itself. Usually the bank will allow 70% of the value of the house or an apartment to be collateral for the loan. In a case where the borrower needs to apply for a loan of amount that is more

than 70% of the value of the property, he/she can for example apply for a warranty from the government. Also banks have their own warranty systems which they can offer for their clients if needed. For example Osuuspankki offers a maximum of 25 000€ credit warranty per person for their clients, in order to reach the full collateral needed. (Osuuspankki 2015.)

2.2.2 Interests and costs

The same way as in other loans, also the price of the loan for buying property depends on the interest rate of the loan. There are many different options for choosing the right interest for your loan, and it is also critically important considering the total cost of your loan. The rate of the interest can either cost or save thousands of euros for the taker of the loan. (Asuntolaina 2015.)

The interest from the loan is paid to the bank with each monthly payment of the payment plan. The combination of the reference rate of interest and the margin of the bank define how much the total interest rate for the loan is. Of all the reference rates of interest, the 12 month Euribor is the most commonly used with which the reference rate of interest changes in every 12 months. The margin and its amount that is collected by the bank with the reference rate of interest, is dependable on the agreement made by the bank and the customer. The amount is influenced by the client's ability to pay back the loan and the collateral of the client. (Osuuspankki 2015.)

The Euribor reference rate of interest is tied to the index of the European Central Bank and they come in options of one month, three month, six month and 12 month periods. 1-3 month periods are defined as short Euribor interest periods and 6-12 month periods as long Euribor periods. The long Euribor reference rate of interest is generally more stable option compared to others, since the interest rate changes only once every six months or a year, depending on which of the long term Euribor interest rates is selected. The disadvantage of Euribor reference rate of interest is that as they change rarely, in a case where the interest rates decrease significantly the interest rate of the taker of the loan remains the same. On the other hand if interest rates suddenly increase significantly, a person who chose a long term Euribor interest can enjoy lower interest rates for a longer period of time.

The interest rate defined by the banks is called a prime interest and it is influenced by the assumption of the economic views made by the bank. Generally the prime interest is seen as a more expensive option compared to the Euribor interest rates. As seen in the figure below (figure 2), there are various differences between banks and what their interest rates are. The fact that the interest rate is higher in another bank than the other, does not guarantee that in the long run that particular rate is the cheapest one, since the rates of the banks change much more frequently than for example Euribor rates.

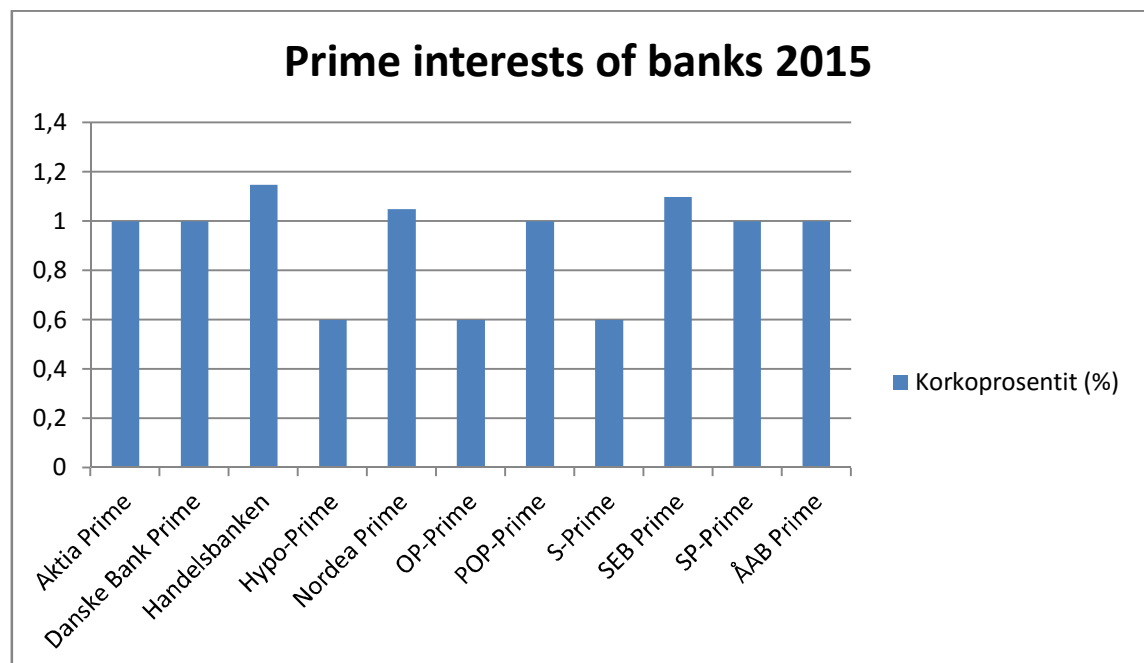


FIGURE 2. Prime interest rates of Finnish banks in 2015 (Kauppalehti 10.11.2015)

Fixed rate of interest is the most stable one of the reference rates of interest. If the taker of the loan chooses the fixed interest rate for his/her loan period, he/she negotiates a stable interest rate with the bank that is not changed over an agreed period. Usually the fixed interest rate covers many years. Fixed interest rate is commonly used as a cover for a high increase of interest rates. The period of the fixed interest varies between banks and can be anything from three years, up to 15 years. (Asuntolaina 2015.)

2.2.3 Loan payments

When the bank issues a loan for their customer, the customer and the issuing bank have to negotiate the terms for paying back the loan. The two parties tailor a payment plan for the customer, which acts as a framework for paying back the loan. The payment plan consists of the agreement on the length of the loan period, as well as the methods of paying and the amount of the total payment that the client pays for the bank each month. The most usual method of payment is a fixed amount, which means that the client pays the same amount of money every month. If the client chooses the fixed amount, the length of the loan period may be longer or shorter than expected, since in the long term the changes in the interest rates change the total amount of the money that must be paid back to the bank. The person taking the loan can make additional payments for the bank if he/she so chooses, in a case where he/she has received more capital and wants to pay the loan more quickly. The taker of the loan can also have a payment leave for a certain period of time, if his/her financial situation has declined for example because of unemployment. During the payment leave, the customer only pays the interest of the loan for the bank for an agreed period of time. (Osuuspankki 2015.)

3 CAPITAL SAVING METHODS

3.1 Investing

Saving capital is an essential part of buying property and investing in the housing market, since banks do not lend money for everyone. In order to get a loan from a bank, it is usually required to have a certain amount of capital saved as cash before the bank is willing to issue a loan. In the case of buying property the amount of capital required usually is a certain percentage of the value of the property the taker of the loan is going to buy. For example the ASP-saving method is based on this assumption. In the ASP system, the required amount of capital owned before getting a bank loan is 10%, as said in page nine of this paper.

In the ASP system, the capital is saved to an ASP account which is maintained by the bank, so the saving method is very simple and doesn't offer much choice for methods of investing. In other cases, where the ASP-system is not used, the saver must come up with different ways of saving the required amount of capital. The most sensible way to save capital is to invest it, since that way the money saved will gain profits by itself. There are many ways of saving capital, and oppose to for example to the ASP-system, there are much more possibilities by investing money. The saver must understand that with more opportunities, there are also more risks that arise from investing.

3.2 Interest account

Investing money to an interest account maintained by a local bank for example, is one of the most basic and common means of investing and making earnings with possessed capital. Saving money on an interest account means basically lending money to a bank, from which the bank pays interest the same way a person taking a mortgage is to pay back loaned money to the issuing bank with interest. Banks are more than happy to loan money from interest account investors, since once it gets a hold of the money, they can lend the money forward to people that are in need of a loan, and thus can seek opportunities to make greater earnings with the money, than what they are required to pay back to the person giving the money to them. In a way the interest gained to the money de-

posited to an interest account is a reward for letting the bank to use the money to gain its own earnings. It is not the intention of the bank to put the money to a bank vault, because that way the bank would make a loss. In this method the bank is practising the very basic means of making business. It buys something and then sells it forward with a greater profit, just as for example a car wholesaler would do, except in this case the product being purchased and sold is capital oppose to a tangible product. (Pörssisäätiö 2014. 7.)

As in any methods of investing, when choosing to save capital on an interest account, the saver must first assess how much risk are they willing to take with the investment and what is their objective in terms of the amount of profit made. (Pörssisäätiö 2014. 7.)

3.2.1 Profits

The common interest accounts are the most stabile means of investing ones money. As they are safe, they also have the lowest rates for gaining capital, since the interest the bank usually pays for the common interest account is the prime interest of the bank. Since with most of the banks the margins are so big, that in times of low interest rates, as it has been for the last years, the amount of money earned using the interest account is usually quite small. This saving method is a good option for the people, wanting low risks for their investments with practically no risk for losing their savings (at least entirely) and want their money to be withdrawed fast if a need for it arises. (Pörssisäätiö 2014. 7.)

3.2.2 Risks

One of the problems with interest accounts at the moment is the fact that as the capital deposited to the interest account does gain a small profit, the interest rates are so small that in many cases the interest is not big enough to cover the inflation rate. This means that even though the amount in the account increases in time, the value of the money actually decreases, since the prices grow in a more rapid pace. (Taloussuomi 2015.)

3.3 Stocks

Investing in the stock market is one of the most common ways of investing and it is what usually comes to mind when someone mentions the word “investing”. When investing in stocks, the investor doesn’t merely buy a piece of paper, but an actual share of the company. The owners of the stocks of a certain company form the owners of the company in question, and an individual stock holder’s share of ownership is equivalent to the amount of his/her shares from all the shares of the company. An investor may purchase stocks of those companies that are listed as public limited liability companies, whose stocks can be bought from the stock exchange. (Kallunki 2011. 101 – 102.)

To understand the stock market better, one should be aware of how and why the stock market exists, and how the traded stocks become objects of public trading. Companies have multiple reasons to become limited liability companies, but one of the biggest reasons is that the company in question needs capital to fund their future operations. Being listed in the stock markets are a way of gaining funding from the public by releasing stocks in the stock market and this way selling a portion of the company shares. The act of releasing stocks in the market is called initial public offering, commonly referred as IPO. Other benefits for a listed company alongside with gaining funding from the public, is for example gaining awareness towards the company and enabling more extensive incentive systems for the employees of the company. (Kallunki 2011. 104.)

3.3.1 Investing in stock market

Investing in the stock markets is one of the easiest forms of investing since all of the stock trading with limited liability companies is made in the stock exchange. This makes it easy for the investor to find a seller or a buyer for the stocks, since without the stock market an investor would have to search for buyers and sellers by other ways, for example by putting up an ad on the yellow pages or the local newspaper. Another fact which makes the stock market a handy platform for investing is the fact that unlike in real estate investing for example, the stocks can be liquidated into cash in a very rapid pace if a need for quick cash arises. (Kallunki 2011. 103.)

Today investing in the stock markets is easy, since all stocks can be purchased and sold over the internet in minutes. When an investor decides to buy stocks from online, there are many platforms to choose from. The most common way is to open a book-entry account in a bank web page, in which the stock trade is handled. Usually an investor uses the services of the bank he/she has as their primary bank. Another increasingly popular option is to open a book-entry account in an online bank specialized in stock trading. (Taloussuomi 2015.)

In Finland there is only one stock market handling the trading of stocks. Helsinki Stock Exchange is owned by a Swedish OMX which was founded in 2003 in the merger of OM and HEX Oyj. (Kallunki 2011. 103.)

3.3.2 Profits

When it comes to profits gained by investing in the stock market, the primary way of adding value to one's investment is getting dividends from the stocks owned. Dividends are the mean of profit distribution to the owners of the company. The amount of dividends that are paid per stock is determined in the annual general meeting of the company. (Verohallinto 2013.)

In long term stock investing, dividends are the mean to make profit with the investment and they determine the long term profit of the whole stock market. Through 1990 – 2010, the annual average profit of stocks has been around 12 percent per year from which the amount of dividends has been four percent, since the growth rate of the market has been eight percent per year, so the profit made with dividends grows frantically over a long period of time as the stock is owned (Taloussanommat 2008.)

The second way of making profit with investing in stocks is the increase of the stock value that is owned. The fact whether the price of the stock will increase or decrease is very hard to know beforehand, but by making right decisions, the increases in stock value may be very profitable. The stock market and the price of the stocks are based on trust and assumptions. If one is to invest in a certain stock that he/she thinks will be a good investment, and the other investors think the same way and keep buying that

stock, its price will increase. If the investors don't see growth opportunities with a certain stock, its value will decrease. (Taloussuomi 2015.)

Historically speaking the track record for investing in stocks looks promising. Between 1802 – 1997 stocks traded in the U.S. have produced an average of 8,4 percent profit per year and the Finnish Helsinki stock exchange an average of 10 percent profit (excluding dividends) per year between 1920 – 1999. As we know that in history there has been good and bad times with market booms and market crashes, in average investing in stocks provides a good opportunity to increasing one's wealth in the long run, as seen from the historical profit averages. (Sijoitustieto 2014.)

3.3.3 Risks

As a long term investment, purchasing stocks is generally seen as the most profitable form of investing, but even though investors should keep in mind that stocks are prone to fluctuations and there is always a risk for losing a portion, or in worst case, all of the invested capital. (Sijoitustieto 2014.)

As the stock prices change according to the demand of the stocks, the stock market can make mistakes with valuating the stocks. Over appreciating stocks can lead to bubbles in the prices, which leads to the company not being able to perform as well as expected, in which case the price of the stock will almost definitely come down, most of the times very rapidly. This coin has two sides, since the stocks of a company can also become underappreciated in the stock market which leads to an increase in the stock price in the near future, increasing the wealth of stock owners. Over appreciation and under appreciation usually have an effect in the stock prices over a short time period, since they are mostly detected quite quickly. (Kallunki 2011. 103.)

The volatility of stocks is generally higher than with other terms of investments. For example the volatility compared to debentures is apparent, since the average volatility of stocks has been 17,7 percent, whereas the volatility of debentures has been 10,4 percent per year on average. The average volatility of stocks only gives an a concise view of the fluctuations of the market, since after 1989 there has been three occasions in the

stock market of Helsinki, where the stock prices has decreased for more than two thirds. (Finanssivalvonta 2011.)

To avoid and minimize risks of losing money, an investor should consider an investment strategy when investing in stocks. Diversification is an important tool for an investor to minimize the amount of return variation without decreasing the return expectation by diversifying the purchased stocks by f.e. industry or market. In the long run, diversification of the stock portfolio may even be more important for an investor than having a profound knowledge of the companies or industries, to which the investments are made (Sijotustieto 2014.)

3.4 Funds

Funds are a mean of investing that is usually referred as an investment fund. An investment fund is a fund, in which money is invested in shares of a fund that holds different securities such as stocks, debentures, capital and other securities. The fund is owned between the investors that have bought shares from that particular fund. Investment funds have a strengthened investment policy compared to other funds and therefore an investor has more option of in what to invest in, and is able to buy funds that withhold f.e. shares from companies that are not listed in the stock market. (Kallunki 2011. 131 – 133.)

Investment funds can be bought from a fund company by giving capital in their use. The fund company then invests the money on behalf of the investor. The investors that have bought the same investment fund form the owners of the fund and are entitled to equal equities of ownership, so the fund is divided into same size portions between the investors. (Finanssivalvonta 2014.)

3.4.1 Bond funds

A bond fund is a fund where capital is invested in bonds that produce a steady interest for the investor. There are many options to choose from, and the most common objects

of bond funds are f.e. government bonds, state bonds, and commercial papers. (Nordnet 2016.)

As said before, bond funds usually offer a steady growth and the risk with these bonds is at the same level with the one of a savings account. As with most cases in investing, with small risk, the bond funds do not offer a great increase in capital and they are often seen not as primary means of investing, but as a temporary investing method until better and more lucrative investment opportunities arise. (Sijoitusrahastot 2012.)

In terms of time, there are two kinds of bond funds, which are divided to short term bond funds and long term bond funds. Short term bond funds are funds that have a term of maturity period of less than one year and they hold less risk than long term bond funds. Long term bond funds have a term of maturity period which is more than one year. The long term bond funds hold more risk than short term bond funds, but still are less risky than for example stock funds. (Nordnet 2016.)

3.4.2 Stock funds

Stock funds are funds that invest in stocks. The risk with investing in stock funds is greater than when investing in bond funds or combination funds, but the profits of stock funds are the highest in the long run. In Finland there are vast differences between the investing policies within funds, as some funds invest in stocks that are traded for example in the European markets and other funds only invest in stocks traded in the domestic market. In addition to geographic diversification, funds can also invest to specific industries for example in stocks from steel industry, banking industry or technology industry. Depending on the fund, there can also be even more factors that determine the investment policies, for example the size of the companies, or their business policies. (Kallunki 2011. 134.)

Stock funds are more vulnerable to fluctuations when compared to other funds, so the investor is required to have a higher willingness to take risks. This also leads to stock funds also having higher profit expectations and the long term profit has been much higher than compared to other funds. To adjusting the investors risk willingness and profit expectations, stock funds are divided to different sections from which other funds

have a higher risk and profit expectation and others have lower risk and also lower profit expectation. (Sijoitusrahastot 2012.)

3.4.3 Mixed funds

Mixed funds are funds that invest in both, the stock market and in bonds. The combination fund are a great way for an investor to adjust the profit/risk ration of their investments, as the portfolio of a mixed fund has more risk than a bond fund but not as much as an interest fund. The ratio of the amount of bonds versus stocks in the portfolio can vary so the portfolio can have for example 20% of stocks and 80% of bonds for a lower risk or for example 80% stocks and 20% of bonds for a higher risk. As stocks are riskier than bonds, naturally the demand of return is also higher in a portfolio with an emphasis on stocks. (Kallunki 2011. 134.)

3.4.4 ETF-Funds

In addition to investing in the more traditional funds, an investor can also buy ETF-funds, which stands for “exchange trading fund”. ETF-funds is a fund listed in the stock exchange, so ETF-funds can be bought similarly as normal stocks for example. ETF-fund are often tied to a certain index, so the investor can buy them if he/she wants their investments to develop according to a certain index. The upsides of ETF-funds are that they are easy to buy trade and monitor. Since the funds are bought from the stock exchange, the changes in the fund value are shown in real time. The ETF-funds also have lower managing fees when compared to traditional funds, and also the range of selection is vast. (Sijoitustieto 2015.)

3.4.5 Profits

As investing in stocks is the most profitable investment method in the long run, it comes as no surprise that when it comes to funds, the best profits are to be expected from stock funds. When examining a five year period, mixed funds have the second best profits before bond funds.

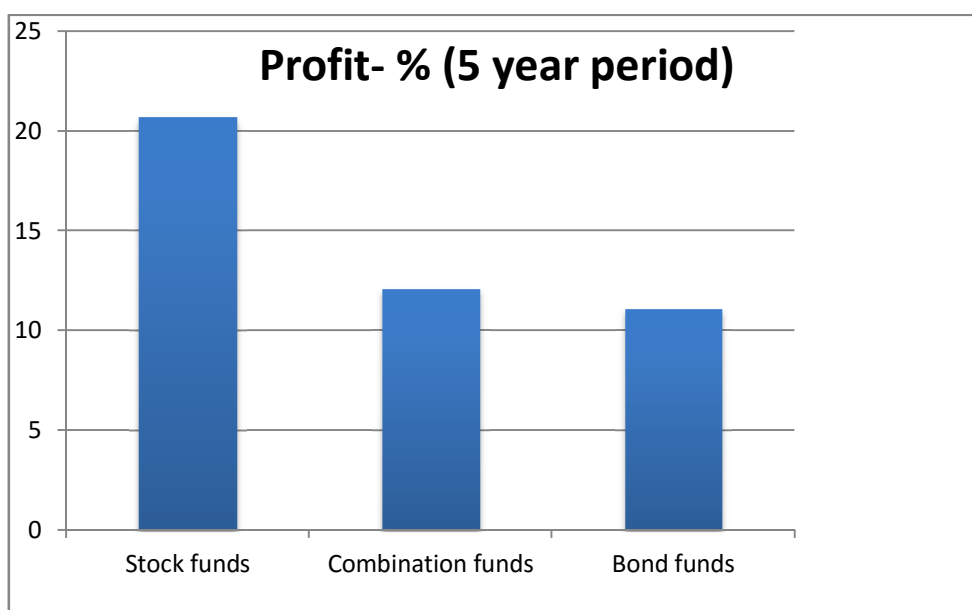


FIGURE 3. Average profit margins of top funds in Finland in 2014 (Taloustaito 2014.)

As seen in the figure above (figure 3) stock funds make the best profits for investors in the long run. They are also the riskiest investment when it comes to funds, but as usual in investing, the riskiest investment has the greatest profit expectation. When compared to normal stock trading, stock funds carry less risk since the fund is already diversified. The figure also shows that when it comes to profit, mixed funds and bond funds are close to each other profit wise, but do not measure to stock funds. As the mixed funds and combination funds don't have as high profit expectation, they on the other hand also carry less risk than stock funds. (Taloustaito 2014.)

3.4.6 Risks

One of the greatest benefits of investing in funds is the fact that they are already disbursed, so the investor faces less risks than when investing for instance in a few specific stocks. If the investor fails to disburse his investments, the risk for one stock or other mean of investment going down and losing capital, may have a great affect in the overall value of one's portfolio. As the case is with funds, the disbursement of the investments secures the portfolio from one particular stock going down, since the other investments are able to cover that loss by making profit. The already disbursed funds may create a false sense of security for the investor, which can lead to a failure since as with all methods of investments, investment funds do not come without risk. It is next to im-

possible to be certain for example with a stock fund, on how the selected stocks and dividends develop over time. Stock funds face two kinds of risks that are used in risk assessments considering funds, which are business risk and market risk. A business risk is a risk measuring factor that takes into account the overall success of the companies which stocks are included in a certain fund. Even though the investments are disbursed there is no guarantee that the stocks won't fail. A market risk is a risk measuring factor that takes into account the risk of all stocks going down due to a financial crisis for example. In a case of such event that the whole market starts to suffer from external turbulence, there will be no stocks in the portfolio to cover the losses of other stocks if the whole market is losing its profitability.

Even bond funds, which are one of the less risky means of investments, face risks due to the fluctuation in interest rates. The interest rates have both positive and negative effects on the bond funds. When the interest rates increase, it effectively decreases the value of the bond fund. Bond funds also carry the risk of the issuer of the bond becoming unable to pay back the capital to the investor. (Sijoitusrahastot 2012.)

In an article written by a Finnish financial paper "Talouselämä", six of the most frequent mistakes made by an investor investing in funds were listed in 2015. The article argues that the biggest mistakes made by a fund investor are, putting too much trust on big fund companies, arguing that smaller fund companies have provided as lucrative investment options as the bigger ones. Active portfolio management is always effective, which argues that three out of four funds lose to their index in profits. The third mistake is to think that a big fund is the most effective one, and the paper argues that the more capital is tied to the fund, the less flexible it will be. The fourth mistake argued by the paper is to believe that an expensive fund is always a good choice, which usually isn't the case, since even if the profit is a little better; it is not enough to cover the more expensive management costs. As for the fifth mistake, investors tend to trust the best ratings given by companies evaluating different funds. For example as the case is with Morningstar, the paper argues that there is not a lot of statistical data that in their five stars rating system (from 1 to 5 stars, one being the lowest and five being the highest) the funds with five stars had significantly better profits in the long run as the ones that were rated with three or four stars. Related to this, the paper reminded that it is easier to predict which funds will have a low profit rate than predicting which funds will have a high profit rate. Running after funds that have been successful in the past is listed as the

last of the most common mistakes. As investors try to find the best funds to invest their money in, they tend to examine which funds have had the best profit margin in the past and go with the highest one. As this may seem like a well-reasoned choice to some investors, the truth is that usually when a fund has had a good run during the past year for example, in that point the investor is usually too late. There is nothing that will guarantee the price of the fund increase even more in the future, and the investor may end up paying lots of money for an already matured fund. (Talouselämä 2015.)

4 INVESTING IN REAL ESTATE

In addition to just buying a house or an apartment for themselves, many people nowadays consider investing in real estate a viable option for their investing plans. The prices of real estate in most parts of Finland have been rising for many years making it one of the most interesting investment opportunities. Although investing in real estate is not nearly as easy when compared to other means of investing f.e. in stocks or funds, the financial security is noteworthy when considering this option, as real estate investing is one of the investment methods that are considered to be very low in the list of the riskiest investments.

Investing in real estate is also much more expensive than investing with the most common investment methods, but the upside is that if the investor doesn't live in the house or apartment themselves, usually someone else is the one paying the bills.

4.1 Real estate as an investment

Investing in real estate is an ever increasingly popular mean of investment and is one of the most sustainable, safest and profitable investing methods. Real estate investing is not like the ordinary investment methods, as the decision cannot be made in a whim, and requires more planning and more capital. As a long term investment real estate investing is a highly reasonable investment method when it is considered and planned well.

One of the best advantages in investing in real estate, is that usually someone else is the one that pays for the investment in the end, since as an investor purchases property, he/she can rent their apartment to someone else who then pays for the expenses in the form of rent. Usually the rent should be set to a level that it is reasonable and desirable for a person to rent it in a way that the rent is enough to cover the expenses of the property, which most commonly are the interests of the property loan and the maintenance charge of the housing association. In the best case scenario, the maintenance fees may be low and the property is on an area with high rent prices, the rent may not only cover the expenses, but also make profit. (Asuntosijoitusopas 2013.)

4.2 Real estate investing strategies

When investing in real estate, the investor should plan a strategy on how the investment should be carried out. One of the biggest decisions an investor has to make is to decide, what kind of property may he/she purchase and for what price and from what kind of location.

It is hard to determine what is the most important thing to consider when planning an investment in real estate, but it is quite safe to say that location is one of the primary concerns and can have a great effect on whether or not the investment venture will be a successful one. Most of real estate investments are made in city centres or close to cities or growing areas. Many investors face a dilemma on whether to buy an investment from the centre, in which case the rent income will be lower after the expenses, or from outside the city centres where the investment is more difficult to liquidate. As said before, it is more common for investors to buy investment real estate from near cities and growth areas, which is reasonable, since in small towns for example, there is not as much demand for houses or apartments so the profits will in most cases be small and the investment can be very hard to liquidate. (Solid House Marketing 2016.)

One of the easiest and safest ways to start investing in real estate is to purchase small one bedroom apartments near growth areas in cities for example. In Finland there is a trend that more and more people live alone, so the demand for smaller apartments is increasing rapidly which makes renting the apartment easier and increases the property values of small apartments. Small apartments also have a benefit of having lower maintenance fees, since in Finnish housing associations the maintenance fee is usually paid per square meter. This way, smaller apartments have smaller maintenance fees compared to bigger apartments, but still their value per square meter is greater than in bigger apartments.

With smaller one bedroom apartments, the rate in which the investment can be liquidated is maybe the fastest of all means of real estate investing. Since smaller apartments have an increasing demand and they are more affordable to people looking to buy an apartment, they are often less time consuming to sell. (Asuntosalkunrakentaja 2016.)

There is no pre designed pattern to prove that one real estate investing option is better than the other, and the strategies vary a lot depending on the goals of the investment period. As the paragraph above states the benefits that come with investing in a small one bedroom apartment, for example the ex-CEO of Hypo, and a financial councillor Matti Inha states in an article written by Kauppalehti, that an apartment with two or three bedrooms is a better choice. He argues that when investing in apartments with more rooms, it is more likely that more than one person will move in when the investor decides to rent the apartment. This decreases the turnover of people renting the apartment, since as the case is with one bedroom apartment, usually when the person renting the apartment loses his/her job, they may not be able to stay in the apartment. As for two or three bedroom apartments, if one of the people renting the apartment loses his/her job, that doesn't necessarily mean the end of the rent period; if another person living in the same apartment maintains his/her job. He also states that since small one bedroom apartments are already so expensive, there is a risk that the prices have reached their maturity. (Kauppalehti 2014.)

4.3 Risks

Even though investing in real estate is seen as a secure method of investing, one should keep in mind that as with all investing ventures, real estate investing doesn't come without risk.

In recent years the trend with house prices especially in city areas has been an increasing one, but as said in other chapters in this work, in investment ventures historical data is not a guarantee for future trends. The housing prices in Finland may as well come down in the future and in that case the investor may lose a portion of his/her capital invested in the property. If prices go down and the investor has to sell the apartment quickly due to changes in life situation and does not have time to wait for the prices to increase again, the investor is forced to sell his property with a lower price than what he/she bought the property in the worst case.

The price of the property to be invested in should always be carefully planned. If the investor takes a loan to invest in a house or an apartment, the amount of the loan should

never be the maximum amount, since the interest rates may go up in which case the expenses exceed the amount, which the investor is willing or capable to pay. This may cause serious financial problems for the investor.

Non-financial threats should also be taken into consideration when renting an investment house or apartment. Since the investor in most cases don't know the person they are renting to, the person renting the property may be irresponsible and may cause damage to the house or apartment or may not pay rent on time or at all. For these cases the investor should always secure him/herself by asking for collateral before making a contract. This way the damages or rent negligence can be covered with the collateral. Collateral is something the person renting the house or apartment usually pays for the owner at the start of the renting period, and gets it back at the end of the renting period assuming that everything has gone smoothly with rent payments and the property is in the same condition as it was at the start of the renting period. The amount of collateral is commonly two months' rent.

Another threat considering renting the house or apartment is the turnover of people renting the apartment. A rent apartment doesn't bind a person living in one, and they may move out all of a sudden, in which case the owner of the property must find a new person to rent the property to. Finding a new person to rent the property to can be expensive and time consuming. If the owner of the property doesn't find a new person quickly, it may lead to financial turbulence, since the owner must pay for all the expenses his/herself.

Before purchasing property as an investment, an investor should always check what kind of renovations has been made and when. If proper renovations such as pipes and frontage renovations haven't been made in a long time, the chances are that an expensive renovations are coming in the future, which force the investor to take more loan to cover the expenses. Although renovations may be expensive, they usually also reflect in the price of the house or apartment, so in the long run the investor may not even lose capital. When an investor purchases a house that is not a part of a housing association, the investor can choose if he/she wants to make renovations and when, but if an apartment is a part of a housing association, the required renovations may be sudden if the board of the association decides to do them. (Asuntosijoitusopas 2013.)

4.4 Benefits and profits of real estate investing

There are many benefits when it comes to real estate investing. Real estate investing differs from the most common methods of investing in many ways and has upsides and downsides to it, but the benefits of real estate investing are well argued and can make it a preferable method of investing

One of the biggest benefits when investing in real estate is that it provides the investor with a steady and consecutive income in form of rent payments. After all of the expenses are paid, what is left of the rent payment is income straight to the pocket of the investor. This way the investor is also able to have two separate sources of income, expected that he/she also has salary income, which is widely considered as one of the key factors in gaining personal wealth.

Real estate investing is one of the few methods of investing in which the investor can affect the profits he/she will make, as the object of investment can be upgraded by renovating for example. It is increasingly common for an investor to purchase a house or an apartment which is not in the best of shape for a low price, after which the investor can make affordable renovations and then sell the house or apartment with a greater profit. When a house or an apartment is renovated, it is also possible to ask for a bigger amount of rent payments, without increasing the monthly expenses.

Profit to risk ratio is in the top priorities of investors in any investment venture. Investing in real estate is one of the investing methods that have a low interest rate, but has strong and steady profits. In real estate investing there are two ways to make profit, of which the first is rent income and the second is the increased value of the property. In a good area, the rent income is usually anything from five to ten percent, but the profit gained from increase of property value is very difficult to estimate. With good planning and strategy, the assumption is that the value of property increases over time.

One of the benefits in investing in real estate is that the investing venture is easy to fund for an individual investor. It is not common to get funding in investments as an individual person, since lending banks want to avoid risks. Investing in real estate is different, since banks are more excepting to lend money for this type of investing because they

can keep the property as collateral until the debt is paid off, which decreases the risk of the bank. (Asuntosalkunrakentaja 2016.)

5 REAL ESTATE INVESTING COMPARED TO OTHER INVESTING METHODS

As there are so many methods when it comes to investing, in a way it's easy to make comparisons between investment methods, since there is lots of statistical data stating which investment methods are better than others, and the historical risk to profit ratios are quite well known. On the other hand, the fact that almost all investors have different objectives and needs, it is more difficult to compare different investment methods and say which of them are the best for a particular person with particular needs.

In this chapter, the main differences between real estate investing and other common investment methods are made according to the findings in other chapters of this thesis work.

5.1 General comparison

As of the most common investment methods, real estate investing differs in a way that it is the most expensive to start as the initial investment in capital is usually at least tens of thousands, and even more commonly hundreds of thousands of Euros. As the initial investment in stocks and funds, depending on the needs and the amount of capital of the investor, can be as low as one hundred Euros.

As one of the biggest differences in comparing real estate investing to other investment methods argued about the start of the investment operations, the second one argues about the differences at the end of the investment period, since the liquidation of assets at the end of the investment period is much easier with stocks and funds for example, since the investor is able to just sell the assets in the stock market, whereas the real estate investor has to sell their assets to someone interested in buying, which can take more time.

Also most of the more common methods of investment are ones that can be made in the stock market. The stock market is a helpful tool for people investing in stocks or funds, but real estate investments can't be made in the stock market.

Usually when an investor invest in real estate, it can be considered as a long term investment, since there is basically no point of purchasing property as a short term investment because of the price of the investment, the amount of work the investment requires and the amount of work that comes from liquidating the investment, as stocks and funds can be bought and sold in a whim as a short term investment.

One thing that an investor should keep in mind when considering on whether to invest in real estate or for example in stocks or funds, is that the legislation between these methods is very different. Listing all of the differences in real estate and stock market legislation would take an entirely new thesis to write, but all of the laws can be found in Finlex (www.finlex.fi).

5.2 Upsides compared to other investing methods

There is no way to determine, which investment method is the best one, since all of the investors have different needs and objectives when it comes to investing. But still there are many facts that state that real estate investing in a long run can be the best option considering the profits and the risks of the investment.

One of the better qualities of real estate investing is that it provides the investor with a steady stream of income over the whole investment period. The investor can rent his/her apartment, thus receiving rent income every single month. Also the expenses in a real estate investment is not something the investor has to worry about, since usually the rent is set so, that the rent income covers or even exceeds the expenses. So unlike in any other method of investment, you get a steady monthly stream of income, someone else pays for your investment and covers its expenses, and in the end of the investment period the investor can sell the investment at a higher price, thus increasing his/her profits even more. As when investing in stocks and funds for example, the companies usually pay dividends once a year, so there is no steady cash flow, also all of the expenses of the investment are paid straight from the pocket of the investor.

As investments come, real estate investing is among one of the riskless methods of investments. Of course the amount of risk depends on the amount of capital invested. Since an apartment or a house is not a company, it cannot go bankrupt. In real estate

investing, the investor basically cannot lose all of his/her money like the worst case scenario is when investing in stocks for example.

It is extremely difficult if not even impossible to get financing for investment purposes from a bank as an individual person. For example a bank would almost definitely refuse in all cases when an individual person would come and ask for money in order to buy stocks. This is not the case when investing in real estate. When investing in real estate, the banks are much more willing to lend money, since they have the real estate as collateral, if the investor cannot pay his interests and loans. If an investor is certain that he/she is able to make an investment in real estate that has profits that exceeds interests, loan payments and other expenses, the investor can create an opportunity for him/her self with bank loan.

5.3 Downsides compared to other investing methods

It is difficult to come up with reasons why real estate investing would be worse option than other methods on investing, but it can be something that is not suitable for all investors at a given time. Real estate investing may not serve the purposes of all investors or there may be time periods when real estate investing is not the most sensible investment.

Investing in real estate is maybe the most expensive methods of investing and that may be a problem for some investors. If an investor has a certain business venture in mind with a particular piece of real estate, he may not be able to carry out his/her plan if the bank is not willing to lend him as much money as is needed. In this case the investment venture cannot be done if the required capital is not gathered some other way. As when investing in stocks, the investor can choose the amount of money he/she wants to invest quite accurately and the investor can choose the appropriate amount of money for one's own purposes. In real estate investing, the investor cannot buy a 100 000€ house or apartment for 80 000€. Either the investor comes up with the rest money or doesn't invest.

One of the biggest downside of real estate investing is the amount of capital required to carry out the investment, and this is one of the biggest arguments when it comes to

comparisons against stock or funds for example. Investors that want to make a 20 000€ investment will not invest in real estate, but buy bonds, stocks or funds instead. Investing in real estate is also always a long term investment that cannot be transformed into money in a whim. For example stock or funds can be liquidated on the other hand almost immediately.

6 CONCLUSION

As stated in the objectives section of this thesis, the main points of interest in this study were to determine whether real estate investing is a considerable method of investing and what does it take from the investor to successfully execute the endeavour. Also comparing real estate investing to other investing methods was one of the most exciting topics of the paper, since it is important to understand, which investing solution is the best for each individual investor. Some investors may see real estate investing the best option for their capital and some may see stocks or bonds as the best option. The meaning of this thesis is to make the decision easier for the investor by comparing both the up and down sides of the methods of investing presented in this paper.

The objective of this thesis was not to highlight the good sides of real estate investing and make it look like a superior option compared to other methods of investing, but to present it as a viable method to invest money and reflect on how it holds up in comparison to others. The readers of this thesis must come up with their own opinion on which method is the best for their individual needs.

As it is argued in this paper, it is safe to say that real estate investing is an interesting method of investing and can be very lucrative for the investor. Real estate investing is also relatively safe, since while it definitely holds risk as any other investment, it is practically impossible to lose all of one's capital with the investment at least when the investment is done with a moderate amount of capital.

Prices of apartments have been rising at least in bigger cities and growth centres over the last years, so in recent history real estate investing has been a successful venture for many. This fact must not be the only thing considered when making an investment decision, since there is no telling whether the trend will continue. The prices of houses and apartments may as well come down in the coming years, but usually houses and apartments hold their value well compared to for example stock prices, when there is a downturn.

One of the biggest challenges of investing in real estate, is the fact that it is by far one of the most expensive investment ventures a person may do in his/her lifetime. Although

one can get a loan from a bank to execute the venture, it is rarely wise, and in most cases even possible to fund the venture solely on loan capital. This is why a large sum of own capital is often required. The problem is that many people do not have tens of thousands of Euros just lying around, so they have to come up with ways to increase their wealth.

In this thesis investing in stocks, funds and interest accounts are presented as the most efficient means to gain more capital with existing capital. The paper argues that investing in stocks is by far the fastest way of gaining capital, but is also the most volatile one. Because of the volatility of stocks, the paper argues that the risk can be reduced by disbursement of the portfolio. This way there is not as much pressure for one stock to be successful as other stocks can cover the losses caused by others.

The least favourable way to gain capital in terms of pace is an interest account, since the interest rates in today's economy are very low. Although an interest account is the slowest way of gaining capital, from all possible investment methods it is by far the safest one.

After enough capital has been gathered, the investment can be made. But as discussed in the last paragraph, usually before making an investment in real estate, one must make an investment in some other investment method. This may cause the investor to think that if the recent investment method has been so lucrative that it has gathered enough money for him/her to buy property, is it sensible to change to real estate investment method anymore? After the whole process, an investor may come to a decision to keep all of his/her assets where they are, since they are generating capital so well. This is one of the reasons why it was important for this thesis to compare different methods of investing, so that the investor can get a better view of how to invest. When comparing real estate investing to investing in stocks, funds and interest accounts, it is important to remember that these methods are very different and there are no right answers. An investor must choose the best method for him/herself.

Real estate investing compared to other investing methods is a very viable option as discussed earlier in this thesis. It is in most cases a low risk investment when done right. What makes real estate investing especially interesting is that it offers more than one source of revenue, as the investor can receive income by property appreciation and rent

income. Also for example stocks and funds offer two income sources as well with dividends and stock appreciation, but for example paying dividends is something that not all companies are willing or able to do.

As said before, the downside in real estate investing is the cost of it, since real estate investing requires often hundreds of thousands of Euros in capital, as in investing in stocks for example can be started by a few hundred Euros and even less. Although investing in real estate is expensive, there is a unique feature to it, since the capital can be gained by taking loan from a bank, which is something that is hardly possible for an individual investor to do when investing in stocks or funds for example.

All investment methods have potential to make money for an investor and they all hold risk. In any investing method risk and profit walk hand in hand, so an investor must consider which investing method is the most suitable for him/her. When it comes to investing in real estate, this thesis argues that real estate investing is a good and considerable investing method for those whose needs it serves the best and definitely has potential for being a successful investing venture and holds up well in comparison to other investing methods.

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